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ABSTRACT

School financing generally has five goals: (1) substantial equalization of educational opportunity throughout a state, (2) fiscal neutrality--educational quantity and quality should not be dependent on local wealth, (3) equitable taxation, (4) efficient use of school funds, and (5) preservation of local control of education. No state has attained all these goals. It seems logical that evaluation of a state's school finance program should start with an analysis of the variation among school districts in educational opportunities provided. The next step is to identify the causes of those variations, which are often related to variations in fiscal resources. Measuring a school finance program's features against a set of established criteria can indicate strong and weak points in the program. The impact of each of a program's features can be assessed only by the use of analytical tools, some simple and some sophisticated. This document concludes with a presentation of a few simple techniques for testing the equity of each of a school finance program's features from district to district in ways comprehensible to the layman and legislator. (Author/FGD)

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RE: EQUITY IN PUBLIC SCHOOL FINANCING

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RE: EQUITY IN PUBLIC SCHOOL FINANCING

Students of school finance and informed laymen generally agree on the following goals of school financing:

1. The finance program should result in the substantial equalization of educational opportunity throughout the state.
2. The finance program should be fiscally neutral - that is the quality and quantity of a child's education should not depend on the per capita wealth of the school district in which he lives.
3. The school program should be financed by an equitable system of taxation.
4. The school finance program should promote the efficient use of school funds.
5. The finance plan should preserve local control of education and it should promote local initiative for improvement of the educational program.

These seem to be simple goals consistent with our national heritage of belief in democracy and dedication to the proposition that "all men are created equal and that they are endowed by their Creator with certain inalienable rights, that among them are life, liberty and the pursuit of happiness." We have made substantial progress in a few states toward attaining these goals but many states have a long way to go. In fact, no state has attained all of these goals.

Why has it been so difficult to attain these goals that seem so reasonable? Let us take the first goal, equalization of educational opportunity. Some states have made substantial

progress toward fiscal equalization and equalization of educational opportunity but they have equalized poverty and mediocrity. We cannot achieve the American Dream by equalizing poverty and mediocrity. For example, full state funding of education will accomplish equalization but if the state program is funded at a low level, only poverty and mediocrity are equalized. Furthermore, there has been a tendency in a few states as they move toward full state funding to restrict local control and to discourage local initiative. Therefore it is quite possible to attain one goal and retard the attainment of another goal if the school finance program is not planned carefully. Some state legislatures in recent years have used the laudable goal of equalization of educational opportunity as an excuse to reduce local taxes for schools without raising state taxes commensurately. Some legislatures have equalized educational opportunity by "leveling down" rather than "leveling up". Their goal seems to have been to destroy all high quality school systems in the state so that there would be no precedent in the state for establishing a high quality school system throughout the state. Their real goal was to hold both state and local taxes down regardless of its effect on the schools.

Let us now examine the second goal, fiscal neutrality. That was the central issue of the famous *Serrano v. Priest* case in which it was held to be a violation of the provisions of the constitution of California to "make the quality of a child's education depend upon the resources of his school district and

ultimately upon the pocket book of his parents". This landmark decision had great influence on the decisions of courts in other states. It is beyond the scope of this paper to review those decisions and the cases presently being litigated. However the essence of Serrano and similar decisions was to declare that the school finance plan must be "fiscally neutral". That is that pupils in a district of but little wealth would have the same amount of money available per pupil or per unit of need as the districts of great wealth.

The legislatures of a number states have attempted in recent years to develop school finance plans that are fiscally neutral. A few of those states have adopted fiscally neutral plans that depend upon the local tax effort made by the district. It is commonly called today the "power equalizing plan". It was first suggested by Harlan Updegraff in a study entitled Rural School Survey of New York State: Financial Support and published in 1922. It is interesting to note that Updegraff's plan of state support was rediscovered fifty years later by John E. Coons, William H. Clune, III and Steven D. Sugarman and named "Power Equalizing" in their book Private Wealth and Public Education. There are a number of variations of the power equalizing model but the essence of the plan is to make the amount of money available per child in a district depend on the tax effort for schools made by the district but not depend on the wealth per pupil of the district. For example, let us assume that the legislature adopts a power equalizing program guaranteeing that \$48 per pupil will be available for each mill of

school taxes levied. If a poor district can raise only \$15 per pupil per mill of taxes levied, the state will give that district \$33 per pupil but if a rich district can raise \$40 per pupil per mill then it would receive only \$8 per pupil per mill levied. However each district would have the same amount of money available, \$48 per pupil from state and local sources. This plan is certainly fiscally neutral. However let us assume that District A levies 18 mills of taxes and District B levies 28 mills. District A will then have \$864 available per pupil and District B, \$1,344. The power equalizing plan should be called the variable level foundation program plan because the state supports various levels of foundation programs in the state depending upon the mills of local taxes levied. It is obvious that the power equalizing plan violates the principle of equalization of educational opportunity. George D. Strayer and Robert Murray Haig pointed out the fact that reward for effort and equalization of educational opportunity are mutually inconsistent in a publication entitled The Financing of Education in the State of New York published in 1923. The power equalizing plan of the state of Ohio is presently being challenged in the courts in the case, Board of Education of the School District of Cincinnati v. Essex. Unfortunately some state legislatures do not have available or they ignore research which shows the impact of alternative school financing models.

Goal number 3, specifies that the school finance program should be financed by an equitable system of taxation. Attempts to attain an equitable system of taxation for schools has been

attended by more controversy than the attempts to attain any other school financial goal. It seems that every person has his own definition of equity. It would seem that an equitable tax system would be based primarily on the principle of ability to pay. However some legislators have told me that their constituents define an equitable tax as a tax that someone else pays. In Florida, many of our legislators define an equitable tax as a tax paid by non-residents of the state such as tourists.

There are only four major types of taxes--personal income taxes, corporate income taxes, sales and excise taxes and property taxes. These taxes provide 94 percent of all federal, state and local tax revenue. If equity is defined as ability to pay and a progressive tax is considered more equitable than a regressive tax, then the taxes in order of relative equity are: personal income, corporate income, sales and excise taxes and property taxes. Therefore moving toward the goal of improving the equity of taxation for schools involves providing a higher percent of school revenues from federal and state sources and a lower percent from local sources. The property tax is the most regressive of all major tax sources and boards of education nationally obtain about 98 percent of their local tax revenue from property taxes. Despite this fact, at the present time about half of all school revenue is provided from local sources. It is obvious that nationally we have a long way to go in attaining the goal of equity in taxation for schools.

Goal 4, "the school finance program should promote the

efficient use of school funds" receives verbal support from practically everyone. Many states have an inefficient local school district organization which makes it impossible to obtain the economies of scale attained in an efficient organization. Many state legislatures succumb to local pressures to retain inefficient local school districts. For example, Nebraska has a total population of only approximately 1,500,000 but it has over 1,000 local school districts. The state of New York has a far more efficient local school organization than Nebraska, but New York as well as most states should reexamine their local school organizations and evaluate their efficiency. Furthermore the school finance plan of each state should be evaluated with respect to whether it promotes the establishment or continuance of inefficient school districts or inefficient school centers.

Inefficient use of school funds is contributed to in some states by unwise local or state regulations which prevent local school districts from maximizing the educational returns for the funds expended. It would promote efficiency in some states to have a "sunset" policy of periodically reexamining the impact of state laws and regulations governing the use of school funds.

Finally, Goal number 5 provides that "the finance plan should preserve local control of education and it should promote local initiative for improvement of the educational program. Many people fear that as we approach full state funding of education in a state or a high percentage of state revenue of

the schools that the people will lose control of their schools. However, the amount of state control exercised over the schools has but little relationship to the percent of revenue provided by the state. For example, I am employed at the present time as a consultant in school finance in the state of Nebraska. For some years, I served as Director of Administration and Finance of the Alabama State Department of Education. In Nebraska, 19 percent of school revenue is provided by the State, in Alabama, 70 percent is provided by the state. It seems to me that there are no more state controls over education in Alabama than in Nebraska. The amount of state control over education in a state is determined entirely by the legislature. The state legislature may provide many controls or few controls without reference to the amount of state funds provided.

Boards of education cannot have initiative for experimentation and innovation unless they have some leeway in their budgets for that purpose. Those leeway funds for experimentation and innovation should be provided by the state or from a combination of state and local funds. Those leeway funds, however, should not comprise so high a percentage of the budget of a district as to prevent the substantial equalization of educational opportunity in the state.

Local control of education has been restricted in some states by the present national mania over "accountability". Some state legislatures have enacted laws requiring a type of accountability that discourages boards of education from undertaking innovations

that might result in improving the quality of education.

In evaluating the school finance program in a state, it seems logical that we should start with an analysis of the variation among the school districts of the state in the educational opportunities provided for pupils. When this approach is used, we do not start with fiscal studies but we start with a study of educational opportunities available. An excellent illustration of this approach is found in a study made by J. Alan Thomas in 1968 entitled School Finance and Educational Opportunity in Michigan. In that study, he made an extensive study of the types of educational programs available in both elementary and high schools in different types of districts. He found that the variation in educational opportunities available in school districts was primarily due to variation in fiscal resources.

Following are some of the studies that should be made of the educational programs of each district of a state or at least of an adequate sample of the school districts of a state:

1. The percentage of eligible children in early childhood education programs including kindergarten
2. The number and percentage who drop out before completing high school
3. The extent to which compensatory and remedial programs are being provided for the educationally disadvantaged
4. The percentage of students who are engaged in educational programs and activities during the summer months
5. The nature and extent of programs in vocational, career,

and adult education

6. The extent to which provision is made for various kinds of exceptional education and the percentage of students who are involved in such programs

7. The nature and extent of health, counseling, and other services provided

8. The extent of the availability of library and instructional materials resources.

These items relate primarily to access of pupils to educational programs. You will note that I have not included performance of students as measured by standardized tests. Numerous studies have shown that student performance as measured by standardized tests is largely a function of the socio economic status of parents. Students will not achieve equally regardless of the financial resources available. However, all students should have equal access to the educational programs which meet their individual needs.

When studies have been made of the variations among districts in educational opportunity, the next step is to identify the causes of those variations. Perhaps the best approach is start with an overall list of acceptable criteria for the evaluation of a state's school finance program. The National Education Association Committee on Educational Finance published a list of criteria for this purpose about 25 years ago. The criteria were entitled "Guides to School Financing". They served a good purpose in assisting states to identify strong and weak elements in their programs of school financing.

The National Educational Finance Project developed in 1972, a set of criteria for the over-all evaluation of a state's school finance program.¹ Following is a summary of those criteria adapted from the original list.

1. The finance program should guarantee to each student in the public school system of the state the availability of programs and services which are appropriate to his educational needs and substantially equal to those available to any similar student, notwithstanding geographic differences and varying local economic factors.

2. The quality of a student's education should not depend upon the per-pupil wealth of the district in which he lives. This is the principle of fiscal neutrality.

3. The quality of a student's education should not depend upon the willingness of the electorate of a school district to vote local school taxes. The level of local tax effort sometimes is affected by the educational level and income of the electorate, the percentage of the students enrolled in private schools, the percentage of old or retired people in the electorate, the racial composition of the district, the value system of the local power structure, and the local tax burden for other functions of local government. The concept of reward for local tax effort conflicts with the equalization principle.

¹See Vol. 5 of National Educational Finance Project entitled Alternative Programs for Financing Education, Roe L. Johns and Kern Alexander, eds., Chapters 9 and 10.

4. The school finance program should recognize variations in per-pupil program costs associated with specialized educational activities needed by some but not all students, such as vocational education, education of exceptional or handicapped pupils, and compensatory education.

5. The program should recognize differences in per-pupil local district costs associated with factors such as sparsity and density of population, pupil transportation, extra costs of isolated schools, and variations in cost of living.

6. An equitable school finance plan also should:

- a. Provide to local school systems a level of support commensurate with the relative financial ability of the state
- b. Include provisions for innovation and improvement in instructional programs
- c. Include all current expenditures, capital outlay, and debt service to facilitate equitable budgetary planning for all phases of each district's educational program
- d. Utilize objective measures in allocating state school funds to local school districts
- e. Be based on a productive, diversified, and equitable tax system
- f. Not financially reward the establishment of unnecessary, inefficient school districts or school centers.

7. If the foundation program equalization model is used, the measure of local taxpaying ability should include only the local tax sources to which the school district has access. That

is, if the only local tax revenue available to the district is the property tax, then the measure of local taxpaying ability should be based entirely on the equalized value of taxable property. However, if a local school district can levy a local sales tax, or a local income tax, or some other local tax, then that local nonproperty tax source can equitably be included in the measure of local taxpaying ability.

These criteria are largely descriptive and are useful only in indicating strong and weak points in the school finance program. We can assess the impact of alternative features of school finance programs only by the use of analytical tools, some quite simple and some quite sophisticated. Both types of tools should be used because persons not trained in educational finance have difficulty in understanding the sophisticated tools. It is particularly important that legislators, lay persons generally, and classroom teachers understand the desirable and undesirable characteristics of school finance programs.

Let us first consider tools to use in measuring the equalization of educational opportunity. The assumption is generally made that fiscal equalization results in equalization of educational opportunity. This is true only when the plan recognizes necessary differences in per pupil costs due to such factors as types of programs provided such as vocational education, exceptional education and education for the culturally disadvantaged, etc. Furthermore, such factors as variations in sparsity of population and in cost of living should also be included.

The most commonly used method of comparing the fiscal resources of school districts is to compare the per pupil expenditures for current expense. Lay persons, including some legislators frequently conclude that educational opportunity throughout a state would be perfectly equalized if the same amount of money is expended per pupil. No valid comparison of school expenditures of school districts can be made unless these cost differentials are recognized. Pupils should be weighed in order to take into account these cost differentials. The National Educational Finance Project developed cost differentials for different types of educational programs.² Differentials of this type can be used to weight pupils in proportion to cost variations. These weightings should be supplemented by weighting due to variations in sparsity of population and theoretically, variations in cost of living. Unfortunately, valid tools for measuring variations among districts in the cost of living for the same standard of living have not yet been developed.

When the actual numbers of pupils in the school districts of a state have been converted into appropriately weighted pupils, then the current expenditure of each school district (excluding transportation and school food service) should be divided by the number of weighted pupils in the district. If the weighting of pupils has been properly accomplished, variations among school districts in the expenditure per weighted pupil indicate variations in fiscal equalization.

The next step is to identify the causes of those variations.

²Ibid., p. 272

In a state where a substantial portion of school revenue is derived from local property taxes, the most likely candidate is variations among the school districts in per pupil valuation of property. This can be examined simply by arranging the districts in order ranging from the highest to the lowest valuation per weighted pupil and comparing the expenditures per weighted pupil. The distribution can be broken into quartiles and the median or average expenditure per weighted pupil in each quartile can be computed. This is a simple technique readily understood by legislators and other lay persons.

A more sophisticated method is to compute the Pearson coefficient of correlation or the Spearman rank order correlation between per pupil wealth and per pupil expenditure. I have found that legislators can generally understand this technique when it is explained briefly to them.

Variations among school districts in per pupil expenditures are also affected by methods of allocating state and federal funds and also by variation in local tax effort. Let us first examine the effect of state and federal funds on per pupil revenue. Graphical methods are suitable for this purpose. The National Educational Finance Project used such a tool for analyzing the extent of fiscal equalization among the school districts of a state.³ Briefly this method is as follows:

1. Arrange all by the districts in a state in order from highest to lowest equalized valuation per weighted pupil.

³See Vol. 4 of National Educational Finance Project entitled Status and Impact of Educational Finance Programs, Roe L. Johns, Kern Alexander, and Dewey Stoller, eds., pp. 55-109.

2. Select a stratified sample of 15-20 school districts in the state ranging from the highest to the lowest in equalized valuation per pupil.

3. Construct a composite bar graph for each of the sample districts using different types of shading or crosshatching for each section of the bar.

4. Compute the amount of local revenue per weighted pupil which is equalized by the state formula such as Strayer-Haig, percentage equalizing, power equalizing, guaranteed valuation, etc., and make this section 1 of the bar for the district.

5. Compute the amount of state funds per weighted pupil received by the district from the total of state equalization and flat grant appropriation and make this section 2 of the bar.

6. The total of section 1 plus section 2 constitutes the basic state program guaranteed by the state to the district. In a number of states it will be found that the state guarantees different levels of programs for different districts. This is particularly true in states where the amount of state funds received by a district depends on the level of local tax effort such as a power equalizing formula.

7. Compute the categorical state aid per weighted pupil received by the district and make this section 3 of the bar.

8. Compute the non-equalized local revenue per weighted pupil available to the district and make this section 4 of the bar. This revenue is sometimes called local leeway revenue.

9. Compute the federal funds per weighted pupil received by

the district and make this section 5 of the bar.

10. The total length of the bar is the sum of section 1,2,3, 4,5. If there is substantial equalization of fiscal resources, the bars will be approximately equal for all districts regardless of variations in equalized valuation per weighted pupil. (Ideally, the revenue used for school transportation and school food service should be deducted in the above computations.) The bars for the sample districts make a profile of the total school finance program of the state. An examination of this profile will reveal what types of school revenue are disequalizing. In most states, the principal disequalizing factor is the unequalized local leeway revenue. This chart will also reveal whether federal funds are disequalizing. This type of chart is readily understood by legislators.

Some of the variations in local tax effort in proportion to equalized valuation per weighted pupil are revealed by the chart described above. However, local tax effort for all districts should be computed. The standard method for doing this is to compute the tax rate on the equalized valuation of each district. In many states, it has been found that many districts of low equalized valuation per pupil have higher equalized tax rates for schools than districts of much greater wealth. Nevertheless, the higher tax rates in the districts of low wealth do not generally yield the local leeway revenue per weighted pupil of the districts of high wealth and lower tax rates.

Heretofore, I have discussed simple tools for analyzing state

finance programs which can readily be understood by the lay public. There are more sophisticated analytical tools available which are used by research scholars. These tools are usually more precise than the tools described above and some of them can be programmed for computers.

It is beyond the scope of this paper to describe these more sophisticated tools. Some of these analytical tools are described in the March, 1977 issue of the Journal of Education Finance in an article by me entitled "Analytical Tools in School Finance Reform".